

## **Mizrahi Tefahot's Challenging Goals for 2021-2025**

Continued growth in market shares; efficiency ratio below 50%; ROE at 14% by 2025; dividend increased to up to 50% of net profit during plan's period

Chairman Moshe Vidman: The challenging strategic plan approved by the Board of Directors will assist the bank to optimally handle the changes in the banking industry and make another leap forward; CEO Moshe Lari: Over the years, on average, Mizrahi Tefahot has presented the best ROE and efficiency ratios in the system; in the coming years, we will act to become a major player in business banking, establish our leadership in the retail segment, offer our clients personal, human banking services supported by advanced digital technology, and leverage Union Bank's merger into the bank to create operational and business synergy.

Mizrahi Tefahot's strategic plan for the years 2021-2025 was released to the public this morning, following its approval by the bank's Board of Directors. The new plan includes a number of key pillars, through which the growth momentum that has characterized the bank in recent years will continue, while increasing the bank's market shares in various areas of activity, maintaining a double-digit ROE which will grow throughout the plan's years, and further improving the bank's efficiency ratio.

Moshe Vidman, Chairman of the Board of Directors, said at the meeting that the plan was challenging, and would assist the bank to optimally handle the changes in the banking industry and make another leap forward. "Mizrahi Tefahot has remarkable, high quality and professional human capital, from the bank's management to the last of the employees. I am confident that we will be able to meet the new plan's challenges, while maintaining our current advantages and developing additional growth engines in a variety of areas".

The principle milestones of the strategic plan, which will lead the bank until the end of 2025, were presented at the Board of Directors' meeting by Mizrahi Tefahot CEO Moshe Lari:

Positioning the bank as a major player in business banking; establishing Mizrahi Tefahot Group's leadership among households through organic growth in all segments; personal, human banking service supported by advanced digital technology; adjusting the operational model to the challenges of future banking and further improving operational efficiency and leveraging the merger with Union Bank to create operational and business synergy.

"Over the years, on average, Mizrahi Tefahot has presented the best ROE and efficiency ratios in the system, setting itself ambitious goals and fulfilling them. Now is the time to

launch a new, challenging plan, detailing our goals and targets for the coming years, and express it publicly and transparently, for the benefit of the bank's stakeholders".

### **Business Banking**

Mizrahi Tefahot will become a major player in business banking through the following steps: establishing real investments activity, an area in which the bank had not been previously active; leveraging the merger with Union Bank as a platform for rapid growth in business sector activities; leading large, complex transactions; enhancing the business banking focus of the bank's international branches in London and L.A.; establishing the bank's position as a leading custodian and servicer of financial assets; and leveraging the bank's participation in State Guaranteed funds for growth in the small and medium business segment.

As a result of these moves, the bank anticipates that its business credit market share in Israel will rise from 11.8% at the end of 2020 to approx. 15% at the end of 2025, and its share of the business deposits will rise from 16.8% to approx. 18% by the end of the plan.

### **Household banking**

In order to maintain its leading position among households in general and in mortgages in particular, Mizrahi Tefahot intends to take a number of steps, including: implementing product and process innovation in the mortgage segment; increasing synergy between mortgage and commercial activities; expanding retail activities to several focused targeted populations; establishing a consumer credit products desk; and leveraging Yahav Bank's uniqueness to increase the group's market share among households.

These steps will increase Mizrahi Tefahot's market share in credit to retail market share in Israel from 32.9% in 2020 to approx. 34% by the end of 2025, and a market share of 23% in retail deposits in Israel, compared to 20.7% in 2020.

### **Advanced human banking**

Mizrahi Tefahot's strategy of personal and human service will continue to be at the center of the bank's relationship with its customers, and will differentiate it from its competitors.

Through an optimal combination of human service encased in an advanced technological and digital platforms, the bank will be able to offer various customer types a multi-channel concept that maintains continuity of service and optimally combines human and digital channels; a unique and different service experience, in which human service will be provided by a personal banker through the digital channel as well, according to the customer's choice;

personal value propositions in all channels adjusted for specific client needs; and a simplification and streamlining of banking processes through digitization of the customer interface.

### **Improving operational efficiency**

Adjusting the bank's operating model to the challenges of future banking and continued improvement of operational efficiency will be achieved, among other things, through the following steps: Shifting and concentrating the bank's headquarters at a central campus in Lod; adjusting branch structure to future banking challenges while optimizing real estate space; automating banking operations and streamlining the work environment; operational synergy based on the merger with Union Bank, and realizing the advantages of scale of the merged bank, and more.

### **Leveraging the Union merger to create operational and business synergy**

The merger of Union Bank into the bank will create operational and business benefits for Mizrahi Tefahot Group. On the operational side, among other things, the merger process will optimize the branch network and human resources, through the merger of branches and the consolidation of headquarter functions. On the business side, the bank group will enjoy an increase in ROE due to the synergy steps; growth in market shares; another leap forward in the bank's business and retail banking activities; an upgrade to the group's competitiveness; and the ability to spread the business risk through a more diverse credit portfolio mix.

### **The goals the plan aims to achieve**

Based on the growth engines and pillars of the strategic plan, the bank aims for the following goals: an increase in revenue at an average (non-linear) annual rate of approx. 8%; control of the average annual increase in expenses at approx. 5% (non-linear); a particularly high quality efficiency ratio, which will continue to improve up to a rate of below 50% in 2025; increasing the credit to the public market share to approx. 24%, and approx. 20% in deposits from the public, by the end of the plan's period; and an ROE that will rise up to approx. 14%, even in the current macro-economic environment. Insofar as inflation and the Bank of Israel's interest rate may increase, the ROE could possibly even exceed 14%.

### **Dividend distribution to investors**

After dividend distributions were halted in April 2020 as a result of the Corona Crisis, the bank plans to return and distribute dividends as early as 2021, pending on the Bank of

Israel's approval. Moreover, the Board of Directors will monitor the execution of the new strategic plan, in order to examine the possibility of changing the bank's current dividend policy during the plan's period, and increasing the dividend that will be distributed out of the net profit attributed to the shareholders from the current rate of 40% to a rate of up to 50%, subject to the approval of the Supervisor of Banks.